

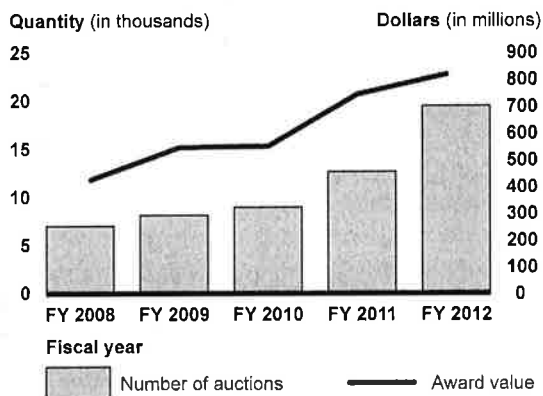
GAO Testimony before the Subcommittee on Oversight and Investigations, Committee on Veterans Affairs, and the Subcommittee on Contracting and Workforce, Committee on Small Business, House of Representatives

Wednesday, December 11, 2013

Reverse auctions are one tool used by federal agencies to increase competition and reduce the cost of certain items. Reverse auctions differ from traditional auctions in that sellers compete against one another to provide the lowest price or highest-value offer to a buyer. GAO was asked to review issues related to agencies' use of reverse auctions. GAO examined (1) what agencies are buying through reverse auctions and trends in their use; (2) how agencies are conducting reverse auctions; and (3) the extent to which the potential benefits of reverse auctions are being maximized. GAO identified four agencies conducting about 70 percent of government reverse auctions.

GAO found that the Departments of the Army, Homeland Security, the Interior, and Veterans Affairs used reverse auctions to acquire predominantly commercial items and services—primarily for information technology products and medical equipment and supplies—although the mix of products and services varied among agencies. Most—but not all—of the auctions resulted in contracts with relatively small dollar value awards—typically \$150,000 or less—and a high rate of awards to small businesses. The agencies steadily increased their use of reverse auctions from fiscal years 2008 through 2012, with about \$828 million in contract awards in 2012 alone.

Number and Value of Reverse Auctions across the Selected Agencies, Fiscal Years 2008 to 2012



Source: GAO analysis of FedBid data.

GAO found that the agencies used the same commercial service provider to conduct their reverse auctions and paid a variable fee for this service, which was no more than 3 percent of the winning bid amount.

GAO found that the potential benefits of reverse auctions—competition and savings—had not been maximized by the agencies. GAO found that over one-third of fiscal year 2012 reverse auctions had no interactive bidding, where vendors bid against each other to drive prices lower. In addition, almost half of the reverse auctions were used to obtain items from pre-existing contracts that in some cases resulted in agencies paying two fees—one to use the contract and one to use the reverse auction contractor's services. There is a lack of comprehensive government-wide guidance and the Federal Acquisition Regulation (FAR), which is the primary document for publishing uniform policies and procedures related to federal acquisitions, does not specifically address reverse auctions. As a result, confusion exists about their use and agencies may be limited in their ability to maximize the potential benefits of reverse auctions.

GAO recommends that the Director of the Office of Management of Budget (OMB) take steps to amend the FAR to address agencies' use of reverse auctions and issue government-wide guidance to maximize competition and savings when using reverse auctions. OMB generally agreed with GAO's recommendations, noting that FAR coverage should be considered and that, before taking concrete steps to amend the FAR, they would discuss GAO's findings and conclusions with the FAR and Chief Acquisition Officers Councils.